



California Legislature

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July 27, 1981

Letter Report 008

The Honorable President pro Tempore of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's report concerning state audits of the Supplemental Security Income/State Supplementary Program.

Respectfully submitted,

WALTER M. INGALLS
Chairman, Joint Legislative
Audit Committee

Attachment



Telephone:
(916) 445-0255

Thomas W. Hayes
Auditor General

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CALIFORNIA 95814

July 20, 1981

Letter Report 008

Honorable Walter M. Ingalls
Chairman and Members of the
Joint Legislative Audit Committee
925 L Street, Suite 750
Sacramento, California 95814

Dear Mr. Chairman and Members:

In response to a request of the Joint Legislative Audit Committee, we have reviewed the State's effectiveness in auditing the federally administered Supplemental Security Income/State Supplementary Program (SSI/SSP), which finances the basic living expenses of aged, blind, or disabled individuals under Title XVI of the Social Security Act. This review was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

AUDIT RESULTS

We found that the Department of Social Services needs to assure better audit coverage of the federal SSI/SSP payment operation. This program costs the State over a billion dollars, and billing and reimbursement problems can result in million-dollar errors. The State, therefore, should systematically verify billings and reimbursements. Although one state audit per year is permissible, very few have been conducted. Furthermore, federal audits of the SSI/SSP do not necessarily protect California's interests. Finally, the need for a formal state monitoring plan to ensure a regular, thorough, and coordinated state audit effort is evident.

Background

In this section, we focus on the purpose of the SSI/SSP payment and the federal administration of the program. The Social Security Administration is responsible for determining eligibility, making payments, monitoring payment records, and billing the participating states. The Social Security Administration employs a quality assurance staff to review payments and reimbursements. The California Department of Social Services oversees the SSI/SSP.

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Title XVI of the Social Security Act provides cash grant assistance for aged, blind, or disabled individuals. California supplements the basic federal Supplemental Security Income payment with an additional State Supplementary Program payment. The combined SSI/SSP payment is intended to cover the recipient's basic needs and living expenses.

On January 1, 1974, the federal Social Security Administration, on behalf of the Department of Health, Education, and Welfare, contracted with the State of California to administer the joint payment program at no cost to the State. Prior to that time, California county welfare departments administered the cash assistance. The Social Security Administration establishes recipient eligibility, determines appropriate grant amounts, and disburses the payments.

The Social Security Administration bills California monthly for the SSP portion of estimated program payments. Between January 1974 and December 1980, the State paid the Social Security Administration approximately \$6 billion.

Under the SSI/SSP contract, the Federal Government is liable to California for erroneously spent SSP funds. The quality assurance staff of the Social Security Administration samples and reviews the payment and eligibility records of California recipients each month. By reviewing this quality assurance data, staff calculates payment error rates which are then used to determine the federal reimbursement liability to California.

The state Department of Social Services is responsible for monitoring the federal payment operation to determine whether state monies are accurately and properly expended. According to the department, state monitoring activities also include:

- The quality control process, in which a random subsample of the federal quality assurance sample is reviewed to determine if the Social Security Administration's error rates are accurate;
- Audits conducted by the Department of Finance and the State Controller;

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- Participation by staff from the Department of Finance and the State Controller's Office on the SSI State Audit Committee. This national committee monitors and audits the results of federal audits of the SSI/SSP payment operation.

Scope and Methodology

The purpose of our review was to determine the State's effectiveness in auditing the Social Security Administration's payment operation. We examined files and interviewed personnel at the Department of Social Services, the Department of Finance, and the State Controller's Office to identify methods used to confirm the accuracy of federal billings and reimbursements to California. We also reviewed state and federal audits of the Social Security Administration's SSI/SSP payment operation. We did not audit the Social Security Administration; therefore, we cannot report on the extent to which discrepancies are occurring. The SSI/SSP contract authorizes audits only by the Department of Social Services or its designated representative, the Department of Finance.

Better Audit Coverage of the Supplemental Security Income/ State Supplementary Program Needed

In this section, we justify the need for state audits of the SSI/SSP payment operation. We then address some problems with state audits in the past, including failure to meet Social Security Administration audit requirements and poor coordination between state agencies. In addition, we point out that audits conducted by federal agencies or national committees may not fully protect California's needs. Finally, we discuss the need for a formal state SSI/SSP monitoring plan.

Regular, State Audits of SSI/SSP Payments Are Warranted

California should be auditing the federal SSI/SSP payment system regularly because (1) state audits are authorized for only a limited amount of time, (2) the program represents a large expenditure of state funds, and (3) there are identified system problems that may be causing inaccurate billings and reimbursements to California.

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The SSI/SSP contract authorizes state audits of federal expenditures, yet the contract limits the time period the State has to begin its audits. The audits must be initiated within one year from the end of the fiscal year that is to be audited.

Another factor supporting the need for state audits is the program's monetary importance. For fiscal year 1980-81, the SSI/SSP program was the fourth largest program supported by the State's General Fund.* In fiscal year 1980-81, the State will pay an estimated \$1.2 billion to the Social Security Administration for distribution to program recipients.

Further, a state audit is needed to assure that system problems identified by other federal and state agencies do not result in errors that could adversely affect California. The General Accounting Office (GAO) has reported system problems related to internal control weaknesses, improper reimbursements, and outstanding checks.

Based on a sample of 1978 payments, the GAO noted that over \$25 million has been erroneously paid to program recipients nationwide due to weaknesses in the Social Security Administration's internal controls. Secondly, the GAO found that the Social Security Administration was not properly reimbursing local governments for temporary financial aid paid to program recipients. Four California counties lost reimbursements totaling \$658,000 over a four-month period. The problem was attributed to procedural problems occurring at both the Social Security Administration and local welfare agencies.

Lastly, the GAO reported problems resulting from outstanding checks. As of December 1978, 300,000 checks for SSI/SSP nationwide were outstanding for six months or more. These uncashed checks represented approximately \$10.4 million in state supplemental funds paid to the Social Security Administration by participating states, including California. Presently, the Social Security Administration does not return or credit that money to the states.

* These programs--kindergarten through twelfth grade education, Medi-Cal, and property tax relief--receive larger shares of General Fund monies than does the SSI/SSP.

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Other agencies have found problems with the administration of the SSI/SSP. In 1978, the federal Department of Health and Human Services audit agency reported control weaknesses in the Social Security Administration's computer program that selects sample payments for quality assurance review. The program permitted certain records to be bypassed during the sample selection process, thus allowing a nonrandom sampling. Such a control weakness could materially affect the amount of federal liability reimbursement to states. For example, if one ineligible payment that we identified were omitted from the six-month sample in 1979, California's reimbursement would be \$75,000 less.

About five years ago, the State of Michigan also found problems with the Social Security Administration's method of computing reimbursement amounts. The Social Security Administration was improperly reducing reimbursements by overstating certain recovery items. Because of this problem, the Social Security Administration estimates that California's reimbursements are understated by over \$4 million.

In 1980, the Auditor General conducted a study of the Department of Social Services' quality control review of SSI/SSP payments. The report on the results of this study indicated that proposed federal reimbursements to California were understated by \$2.7 million because of certain omissions in the calculations of payment error rates.* These omissions, some of which date back to 1975, could have been detected much sooner if the State had been routinely examining the Social Security Administration's computations of federal liability reimbursements. Earlier corrective action by the State could have increased federal reimbursements above those currently proposed.

* For more information, see Improved Quality Control and Monitoring Needed in the State Supplementary Program; Report No. 914.2; Office of the Auditor General; Sacramento, California; April 1980.

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Periodic and Coordinated State
Audits Could Benefit the State

The State has not conducted an audit each fiscal year as it is authorized to do. Furthermore, because the State has not given prompt notice of its intention to audit, it can now audit only the most recent federal fiscal year in the program. In addition, the Department of Finance and the State Controller's Office could have coordinated and planned their SSI/SSP audits more effectively.

The SSI/SSP contract authorizes a state audit every federal fiscal year. For the period from January 1, 1974 to September 30, 1980, the State was authorized to perform seven audits. To date, only two of those audits have been conducted. The first was a joint effort by the Department of Finance and the State Controller, covering the period from January 1, 1974 to June 30, 1974; the second, conducted by the State Controller with the assistance of the Department of Finance, covered the period from July 1, 1974 to June 30, 1975.

During these two audited periods, the State paid over \$900 million to the Social Security Administration. But during the period between July 1, 1975 and September 30, 1980, when no audits were conducted, the State paid \$4.8 billion to the Social Security Administration.

Because contract language requires the State to notify the Social Security Administration of its intention to audit within one year from the close of the fiscal year to be audited, the State has lost its authority to audit any other past periods except the most recent federal fiscal year: October 1, 1979 to September 30, 1980. Management of the Department of Social Services stated that audit planning has recently been delayed because a new SSI/SSP contract is pending. This contract would expand state audit authority.

A Department of Finance official stated that a notice of intention to audit SSI/SSP operations during fiscal year 1979-80 was sent on December 16, 1980. It appears questionable, however, whether this notice will officially alert the Social Security Administration of the State's intention to audit. Officials of the Social Security Administration reported that they are uncertain whether this letter could be considered California's official notice of

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intention to audit under the terms of the existing contract. The letter does not specify which fiscal year is to be audited. Further, it indicates that the audit will not begin until the new SSI/SSP contract has been signed.

In addition to the general absence of state auditing, we also found instances of uncoordinated state audit activity. The audit of fiscal year 1974-75 conducted by the State Controller's Office is an example of this problem. For this audit, staff reviewed a sample of recipient files to estimate the amount that the Social Security Administration overpaid to recipients and eligibles. This review was similar to the quality control review performed during the same time period by the Department of Social Services. Yet, the State Controller's audit results could not be used to seek recovery from the Social Security Administration because of limitations in the contract for determining federal reimbursements. Specifically, the SSI/SSP contract provides that California will receive reimbursement for erroneous payments detected in the quality control review process and not for mistakes detected by separate audits such as the one conducted by the State Controller. The Controller could have instead concentrated on other audit activities, such as examining the validity of the Social Security Administration's quality assurance sampling procedures or verifying federal billing amounts for overpayments withheld, returned checks, and cash refunds.

Another example of uncoordinated state audit effort occurred in 1978 when the Department of Finance, the designated SSI/SSP auditor for California, notified the Social Security Administration of a planned audit. The Social Security Administration responded that it was already negotiating with the State Controller for the annual audit authorized by the contract. In the end, neither agency audited SSI/SSP operations for fiscal year 1976-77. Better coordination among state agencies could improve the efficiency and effectiveness of state SSI/SSP audits. During our audit, the Department of Finance and the State Controller began planning a coordinated audit of the SSI/SSP operations for the 1979-80 fiscal year.

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Audits by Other Entities May Not
Protect California's Interests

California's participation in the SSI State Audit Committee does not guarantee protection of the State's individual interests. Furthermore, the results of federal audits are not communicated effectively, if at all, to the Department of Social Services.

The committee monitors the activities of federal audit agencies which review the program payment operation. California is represented on the committee by the Department of Finance and the State Controller.

Although the committee serves an important function by reviewing federal audits for accuracy and objectivity, it does not protect the interests of individual states. Audit management of the Department of Finance stated that the committee's reviews of federal audits do not directly assure that federal billings to California are accurate or are in accordance with the SSI/SSP contract.

Similarly, other audits of the SSI/SSP payment operation may not adequately serve the State's interests. The Department of Social Services cites nine audits of the SSI/SSP that have been conducted at the national level. Department of Finance officials state, however, that these audits have limited value in assuring that California's monetary interests are protected.

In addition, we note that there is no system to formally communicate the results of federal level audits to the Department of Social Services. The results of the review by the SSI State Audit Committee are only reported verbally at committee meetings. Neither the Department of Finance nor the State Controller's Office systematically reports the federal audit findings in writing to the Department of Social Services. Furthermore, these agencies do not report the extent to which such audits can be relied upon to assure that California's payments and reimbursements are accurate.

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A Formal SSI/SSP Monitoring
Plan Should Be Prepared

The lack of state audit coverage and need for better coordination among state agencies indicates that a formal SSI/SSP monitoring plan should be developed. The Department of Social Services, as the state agency ultimately responsible for monitoring the federal payment operation, should be responsible for seeing that such a plan is developed and carried out. Department officials state that, in the past, they have had difficulty controlling the audit activities of the Department of Finance and the State Controller.

A formal monitoring plan jointly developed and agreed to should help alleviate this problem. The General Accounting Office emphasizes the importance of central planning of multi-participant audits in its publication entitled, "Standards for Audit of Governmental Organization, Programs, Activities and Functions:"

Very careful planning by the central agency directing the audits is necessary if such audits are to be performed effectively and economically.

CONCLUSION

The State needs more effective audit coverage of the Social Security Administration's payment operation. Past state SSI/SSP audits could have been more frequent and more complete. In addition, SSI/SSP audits performed or reviewed by other organizations do not adequately ensure the protection of California's monetary interests. This lack of audit coverage indicates a need for a formal SSI/SSP monitoring plan.

RECOMMENDATION

We recommend that the Department of Social Services ensure that the State audits the operations of the SSI/SSP for the federal fiscal year 1979-80. The Department of Social Services should determine whether, under the current contract, the letter submitted to the Social Security Administration constitutes a formal notification of California's intention to audit the

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1979-80 fiscal year operation of the SSI/SSP. We also recommend that the Department of Social Services, in conjunction with the Department of Finance and the State Controller's Office, develop a formal SSI/SSP monitoring plan that:

- Specifies objectives for each fiscal year's audit. Such objectives should be directed toward verifying federal billing amounts and validating the quality assurance sample selection process;
- Assigns monitoring tasks to designated state agencies;
- Specifies the desired completion dates for audits;
- Takes into account the results of the SSI State Audit Committee reviews;
- Establishes procedures for formal communication with the Social Security Administration.

We further recommend that the Department of Social Services request formal reports from the Department of Finance and the State Controller's Office regarding the work of the SSI State Audit Committee. These reports should identify federal audit findings that might affect California's program and should conclude whether such audit work ensures the accuracy of California's payments and reimbursements.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Staff: Steven L. Schutte, Audit Manager
Mark A. Lowder

Attachments: Responses to the Auditor General's Report

Director, Department of Social Services
Director, Department of Finance
State Controller

**DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814**

July 14, 1981

Mr. Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

We have reviewed your draft letter report 008, "The need for better audit coverage of the Supplemental Security Income/State Supplementary Program," and have discussed its conclusion and recommendations with your staff in an exit conference June 10, 1981. We agree with the conclusion of the report; and the Department will be working, in coordination with the Department of Finance and the State Controller's Office, to fully implement the recommendations.

However, although we concur with the recommendations of the report, your discussion of several problem areas is potentially misleading. It creates the impression that the Department's monitoring efforts were impaired because we either were not aware of certain problems or were not taking action to correct them. I would like to correct any such impression by briefly commenting on the Department's role in each of the following problem areas discussed in the report:

- Reimbursement to local governments for temporary assistance (Interim Assistance). The Interim Assistance problem identified by the General Accounting Office was known to both the Social Security Administration (SSA) and this Department and was the subject of a State/Federal corrective action study conducted in 1977 and 1978 (Report of the Joint Social Security Administration/Department of Benefit Payments Study of the Interim Assistance Program in California, March 1978). However, the problem is not within the audit scope of the Supplemental Security Income/State Supplementary Program (SSI/SSP) because Interim Assistance is not covered by the SSI/SSP contract.
- Unnegotiated checks. The issue of unnegotiated SSI/SSP checks is one that California has been aware of since the first six-month period of the program. This issue is one which cannot be resolved by audit activity of State agencies, but which requires Federal legislation. Over the past few years, we have actively lobbied for Federal legislation to limit the negotiability of SSI/SSP checks and to return to the states the SSP amount of uncashed checks. As a result of these efforts, HR 3982, Section 15443, of the Budget Reconciliation Act of 1982 contains these provisions and the outlook for its passage is favorable.

- Returned checks (Recoveries). The resolution of this problem is an example of the benefit which California receives because of its close cooperation and coordination of monitoring efforts with other states which have federally administered programs. As a result of negotiations between SSA and the SSI Subcommittee of the American Public Welfare Association (which California currently chairs and Michigan is a member), SSA has agreed to develop a methodology to account more accurately for recoveries in the computation of Federal fiscal liability. The State will have an opportunity to review and approve the methodology and to audit the recovery calculations.
- Coordination of the State Audit Effort. Your discussion of State audit plans in 1978 was based on the erroneous assumption that there was a lack of coordination between the Department of Finance and the State Controller. Three audits were planned for 1978: a payments audit for FY 1976/1977 by the State Controller, a Quality Assurance review by the Department of Finance, and a Financial Accounting Exchange review by staff to the SSI State Audit Committee. These audits were jointly planned and the audit responsibilities for each jointly agreed upon. The Department was to provide technical assistance to each of the auditing agencies, and each proceeded with its audit plan. SSA, however, interpreted the audit provisions of the contract to limit the State to a single audit of any type for each fiscal year (Commissioner Tierney's letter of September 22, 1978). This was the first time the State was informed of any such limitation. While we disagreed with SSA's interpretation that only one audit was permitted, they had also denied the audit of the Quality Assurance system on the basis that the contract prohibited State audit of SSA's operational policies and procedures. We have been successful in negotiating a revised contract which makes clear the State's right to audit all aspects of the SSI/ SSP program. We expect to execute the new contract shortly.

Thank you for the opportunity to share our comments on this report. I believe that implementation of the recommendations will assist our continuing efforts to improve monitoring of the SSI/SSP Program.

Sincerely,



MARION J. WOODS
Director

Memorandum

Date : July 13, 1981

To : Thomas W. Hayes
Auditor General

From : **Department of Finance**

Subject: Draft Report Entitled "The Need For Better Audit Coverage Of The Supplemental Security Income/State Supplementary Program"

The following is our response to the report which was transmitted to us by a letter dated July 7, 1981.

The Supplemental Security Income/State Supplementary Program, commonly known as the SSI/SSP program, is a unique program since it represents the only Federal/State welfare grant program where a Federal agency, the Social Security Administration, administers the program. State funds are paid monthly to this Federal agency which is responsible for identifying eligible recipients and issuing monthly checks to these parties.

This unique situation has lead to particular problems in the auditing of this program. Over the years since the program became effective in 1974, the Social Security Administration has strictly applied the extremely restrictive provisions of the contract negotiated with the various states, including California. In addition, since the agreement under which the Social Security Administration assumed the administration of this SSI/SSP program relieved California of the administrative cost of the program, we felt a cooperative attitude was in our best interests.

I am pleased to report that California is now in a much better position to initiate the audit coverage of the Social Security Administration's payment operation which we both feel is necessary and desirable. A new contract which has taken over three years to negotiate is now awaiting signature. This contract, in which representatives of the California Department of Social Services took a leadership role, contains provisions which allow states to initiate an audit program which we feel will allow for an adequate review.

The Department of Finance, who is the cognizant audit agency for this SSI/SSP program in California, in cooperation with the State Controller's Office is proceeding to implement the audit provisions of this contract even before it is signed. We have accomplished the following:

1. A detailed audit plan has been developed and has been reviewed and approved by the SSI/SSP State Audit Committee. A copy of the plan is included as an attachment.

2. The audit plan has been submitted to the Social Security Administration in Baltimore, Maryland and an official notification has been submitted to the regional office in San Francisco, California that California will be auditing the SSA payment operations covering the fiscal years ending in 1980 and 1981. This official notification is a follow-up and clarification of the letter sent in December 1980.
3. Staff has been assigned from both the Department of Finance and the Controller's Office and are currently working to implement the provisions of the audit plan.

The past history of the audits of the SSI/SSP program has been marred by the difficulties associated with the restrictive provisions contained in the original contract and the uncooperative attitude of Federal officials involved in this program. We are confident that these difficulties have now been overcome.

In response to the specific points made in your report:

a. Periodic and Coordinated State Audits Could Benefit the State

We are in complete agreement with this statement. The audit plan now being executed represents the coordinated efforts of the Department of Finance audit staff, the Department of Social Services and the State Controller's Office which will also participate in the audit.

b. Audits by Other Entities May Not Protect California's Interest

Because of the difficulties encountered in working under the terms of the original contract, we felt any audit was beneficial to California's interest. We, of course, prefer that the audit activities be by California representatives. We are now moving to insure that this is the case.

In the discussion of this issue, it was stated that the results of meetings of the SSI Audit Committee were reported only verbally to the Department of Social Services. I can report expressly that the department was advised by the Department of Finance in a letter dated July 22, 1980 of the SSI Audit Committee meeting of July 17, 1980 and in a letter dated June 12, 1981 of the meeting held on June 3 and 4, 1981. I state these facts only to emphasize our current level of activity on this program.

c. A Formal SSI/SSP Monitoring Plan Should be Prepared

Again, we agree with this statement. Our audit plan which is attached is only the first step in implementing our responsibility as cognizant auditors for this program.

Thomas W. Hayes

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July 13, 1981

The body of the report makes reference to the GAO report regarding outstanding checks. The SSI State Audit Committee had a special subcommittee which addressed this problem and which was instrumental in having the GAO investigate the problem. The staff of the Department of Finance worked closely with GAO during the development of the report and, in fact, brought the problem to the attention of the Western Intergovernmental Audit Forum and the Federal Treasury. In cooperation with other states, California officials have been instrumental in proposing Federal legislation which addresses this problem. The House Concurrent Resolution on the proposed Federal Budget for Federal Fiscal Year 1982 contains language which would allow California to move toward recovery of funds now invested in these checks. My Washington office and Sacramento staff are working closely together to insure that these provisions remain in the final bill. I trust the Legislature will support us in this effort.

The audit activity in the SSI/SSP program has been a frustrating experience to the State of California. It now appears we have overcome the difficulties and that we will be carrying out a monitoring plan which will be most acceptable and beneficial to California.

If you have any questions, please call Richard L. Cutting, Chief, Financial and Performance Accountability Unit at 322-2985.

Mary Ann Graves
for MARY ANN GRAVES
Director of Finance

Attachments

cc: Mr. Kyle McKinsey, Department of Social Services
Mr. Arnold Schuler, State Controller's Office

2940A

May 26, 1981

STATE OF CALIFORNIA AUDIT PLAN
SSI/SSP PROGRAM
SSA NATIONAL, REGIONAL AND DISTRICT OFFICES

I. Objectives

- A. To determine the accuracy of the systems employed by SSA to account for and report the disbursement of State Supplemental Payment funds.
- B. To determine the accuracy of the Federal Quality Assurance system in the administration of State Supplemental Payments.

II. General

Initially a preliminary survey of each of the areas discussed in III below would have to be performed to become familiar with the systems and determine the areas of risk. Upon completion of the survey, detailed audit programs and checklists would be developed. In addition, the survey would include:

- A. Review of:
 1. Laws and regulations
 2. Policy manuals
 3. Procedures manuals
 4. Systems manuals and documentation of the system
 5. Audit and administrative reports
- B. Interviews of State, SSA, GAO, and U.S. Treasury personnel

III. Scope

A. Quality Assurance System

The audit of the Quality Assurance System will be performed in accordance with the Federal Quality Assurance Manual and other applicable Federal regulations. The audit will generally consist of:

1. Review and verification of the universe of cases receiving State Supplemental Security Payments.
2. Evaluation of the sample selection criteria and the application of the sampling methodology used in the QA process.
3. Review the client eligibility determination procedures at the SSA district offices to determine the relationship and impact on errors identified in the QA process.

4. In conjunction with the California Department of Social Services review QA sample case files to determine SSA compliance with the Quality Assurance Manual.
5. Determine that overpayments identified by the Federal/State QA procedures are accurately included in the FFL calculation.
6. Evaluate procedures for correcting errors identified in the QA process.

B. SSA 8700--FAX

The audit of the SSA 8700 and the supporting FAX will be performed to determine SSA compliance with procedures for accounting and billing for State funds and will generally consist of:

1. Review SSA procedure for identifying, processing and reporting, payments, return checks, cash refunds and overpayments of recipients.
2. At selected district offices, determine that the procedures and controls for cash refunds, returned checks and overpayments are being followed.
3. Evaluate waiver procedures for overpayments at selected districts and determine the cause and amounts waived.
4. Identify overpayments, cash refunds and returned checks and verify that these items are reported to the State on the SSA 8700.

IV. Reporting Requirements

The audit should result in a report detailing the audit findings, recommendations, and adjustments to FFL if appropriate.

2104A



KENNETH CORY

Controller of the State of California
SACRAMENTO, CALIFORNIA 95805

July 15, 1981

Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

This is in response to your draft letter report entitled "The Need for Better Audit Coverage of the Supplemental Security Income/State Supplemental Program." While I agree in principle with the recommendations contained in your report, I believe the report does not include some factual points which are essential to a clear understanding of the problems encountered in monitoring this program. Of particular concern to us, is the restriction on our audit activities required by prior contracts with the Social Services Administration. In addition, the report does not recognize the continuing efforts of the State Controller's Office, Department of Finance, and Department of Social Services to eliminate those contractual restrictions. These restrictions have hampered not only California, but all states in the monitoring of this contract.

Your report mentions Michigan's discovery of an error in the Social Security Administration's method for computing reimbursement amounts for cash recoveries from recipients and a GAO report concerning uncashed SSI/SSP checks. However your report omits any mention of the fact that the State Controller's Office, Department of Finance, and the Department of Social Services have all been aware of these problems for several years and have been pressing for their resolution since the problems were disclosed. More than two years ago, legislation was introduced in congress to put a time limit on the negotiability of SSI/SSP checks and to return the funds related to such uncashed checks to the states. This legislation, although unsuccessful, was a direct result of the actions of the Departments of Finance and Social Services. Currently, the SSI State Audit Committee is pressing for the passage of similar legislation now before congress.

The report states that only two of seven audits allowed under the contract were performed, and suggests that even though the results of state audits could not be used to seek monetary recoveries the state should have conducted audits of the quality assurance system and payment adjustments made by the Social Security Administration. I feel such audits would not have been a responsible or effective use of state audit resources. Instead, the State Controller's Office and Department of Finance concentrated their efforts on more equitable contract terms related to auditing the program administration.

Thomas W. Hayes

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July 15, 1981

As a result of those efforts a new contract was negotiated with and agreed to by the Social Security Administration. This new contract allows for expanded audit coverage and use of audit results for fiscal recovery. Unfortunately, this contract still remains unsigned by the Social Security Administration. Both the State Controller's Office and Department of Finance are pursuing this issue through our congressional representatives.

The federal-state agreements for federal administration of SSI/SSP required mutual agreement between the state and the Secretary of the Department of Health and Human Services as to the objectives and scope of any audit conducted by the state. This in effect restricted all state reviews to those items approved by the Social Security Administration. In spite of these restrictions, California has performed more audit work in SSI/SSP than any of the other twenty-six states involved in the program.

Your report seems to attach more importance to the need to do audits on a regular basis than on the necessity of changing the restrictions placed on the states in performing such audits. I believe that such emphasis was not appropriate considering the numerous audits performed by the GAO and Health and Human Services Audit Agency and the monitoring of such audit work by the SSI State Audit Committee.

On June 9, 1981, an exit conference was held to discuss the report. At that time we informed your staff of co-ordinated efforts of the Department of Finance, Department of Social Services, and State Controller's Office in negotiating a new contract as well as the formal audit plan prepared jointly by the State Controller's Office and Department of Finance, at the request of the Department of Social Services. This audit plan was presented to and endorsed by the SSI State Audit Committee at their June 1981 meeting in Baltimore. The audit will be conducted according to the terms of the new contract which is unsigned at this time.

I appreciate the opportunity to respond to your draft report. The information presented above has apparently been overlooked in your draft report. I ask that my comments be used in amending the report to more accurately reflect the history of audit work performed on the SSI/SSP program.

Very truly yours,

William S. Busby
for F. Arnold Schuler
Deputy State Controller

FAS:x